

AR45

REVELSTOKE COMPANIES LTD.

ANNUAL REPORT 1975



1971



1973



1975

WHERE WE ARE

BRITISH COLUMBIA

ALBERTA

BRITISH COLUMBIA

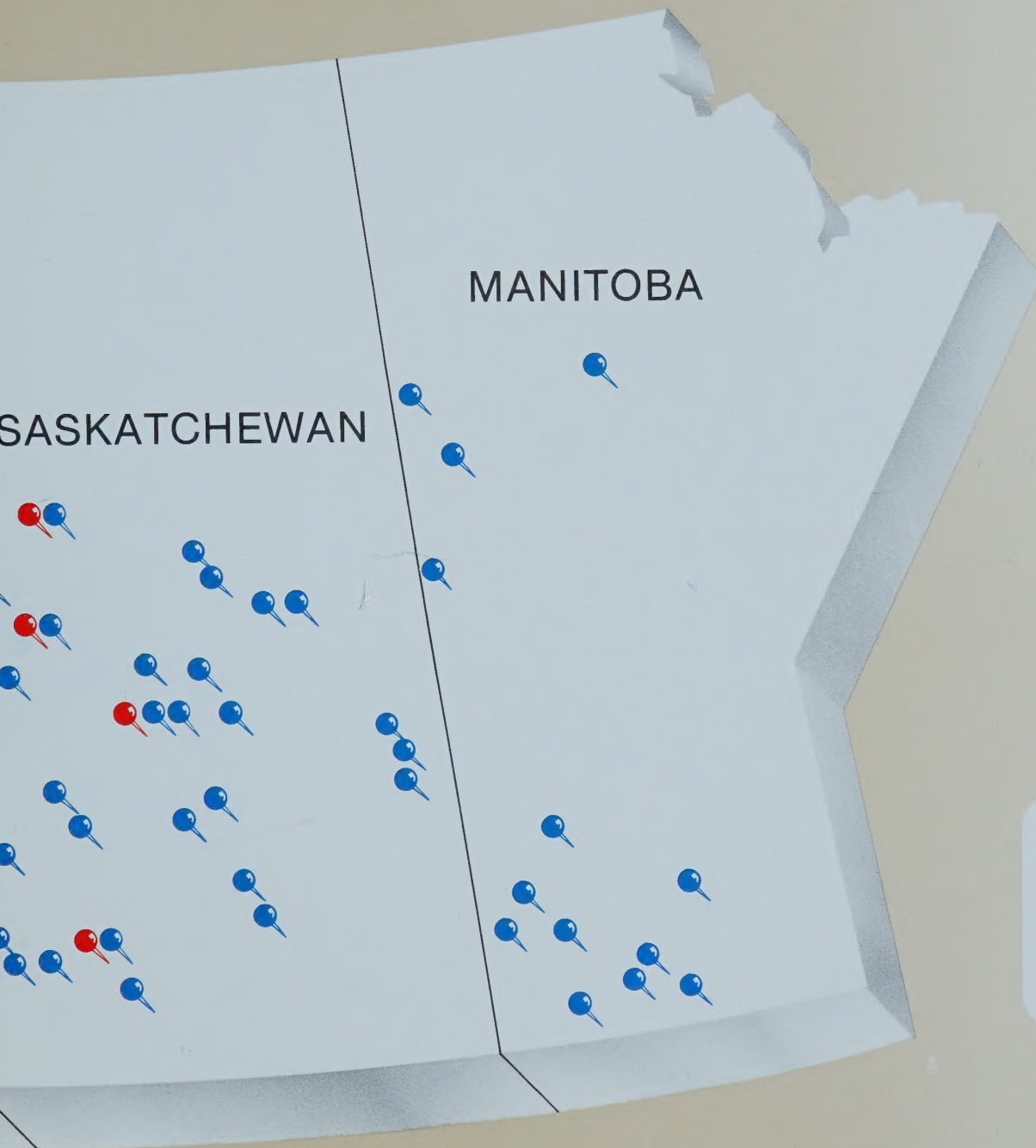
- Cranbrook
- Creston
- Dawson Creek
- Duncan
- Fort St. John
- Kelowna
- Ladysmith
- Nanaimo
- Parksville
- Penticton
- Port Alberni
- Radium
- Rutland

ALBERTA

- Victoria
- White Rock
- Acme
- Airdrie
- Alix
- Athabasca
- Bentley
- Brooks
- Calgary
- Camrose
- Carstairs

- Castor
- Coronation
- Crossfield
- Daysland
- Didsbury
- Drumheller
- Eckville
- Edmonton
- Grande Prairie
- Hanna
- Hardisty
- High River
- Holden
- Innisfail

- Lacombe
- Lac La Biche
- Leduc
- Legal
- Lethbridge
- Medicine Hat
- Nanton
- Okotoks
- Olds
- Peace River
- Picture Butte
- Ponoka
- Red Deer
- Rocky Mtn. Hous



-  STORE
-  CONCRETE PLANT
-  LUMBER MILL
-  HEAD OFFICE

SASKATCHEWAN

-  Sentinel
-  Sundre
-  Sylvan Lake
-  Taber
-  Two Hills
-  Vauxhall
-  Vegreville
-  Vermilion
-  Viking
-  Vulcan
-  Wainwright
-  Wetaskiwin
- Whitecourt

-  Battleford
-  Birch Hills
-  Canora
-  Cudworth
-  Davidson
-  Elrose
-  Fox Valley
-  Gull Lake
-  Humboldt
-  Leader
-  Lumsden
- Maidstone
- Meadow Lake

-  Melfort
-  Ponteix
-  Preeceville
-  Prelate
-  Prince Albert
-  Regina
-  Rosetown
-  Rosthern
-  Saskatoon
-  Swift Current
-  Tisdale
-  Unity
- Watrous
- Yorkton

MANITOBA

-  Baldur
-  Boissevain
-  Brandon
-  Cypress River
-  Dauphin
-  Flin Flon
-  Hamiota
-  Morden
-  Portage la Prairie
-  Swan River
-  The Pas
- Thompson
- Virden

ON VANCOUVER ISLAND, THE COMPANY OPERATES SIX STORES UNDER THE NAME OF STEWART & HUDSON.

IN THE OKANAGAN VALLEY, REVELSTOKE OPERATES 3 STORES UNDER THE NAMES OF KELOWNA, RUTLAND AND PENTICTON BUILDING SUPPLIES.

WHAT IS REVELSTOKE

The Company started business with a saw-mill in Revelstoke, British Columbia in 1903. Revelstoke opened its first retail lumber yard on the prairies in 1906 to provide an outlet for its mill products. The Company subsequently built up a large network of lumber yards throughout the prairie provinces over the next 25 years. To ensure an adequate supply of lumber for these retail outlets, Revelstoke acquired and built additional lumber mills in Alberta and British Columbia.

The Company moved its Head Office in 1912 from Revelstoke to Calgary, Alberta. In 1952 Revelstoke entered the concrete business in order to offer a more complete range of building materials to its customers. The name of the Company was changed in 1972 from Revelstoke Building Materials Limited to Revelstoke Companies Ltd.

Today Revelstoke's most significant business consists of 109 stores located throughout Western Canada, serving primarily retail customers as well as tradesmen and builders. These stores are referred to as "home improvement centres" as each one represents a combination hardware store, lumber yard, home decorating centre, building material dealer, carpet store and supplier of electrical, plumbing and heating equipment. In essence, what were once lumber yards have now evolved into stores offering one stop shopping for customers wishing to complete any type of home building, decorating or repair project.

Revelstoke is also in the business of producing redi-mix concrete with 19 plants in Alberta, Saskatchewan and British Columbia, and in the lumber manufacturing business with three mills in Alberta and one mill in British Columbia. The principal customers of the concrete plants are builders, government agencies, homeowners and farmers. While a majority of the lumber produced by the mills is either sold in Canada or exported to the United States, the mills also serve as a major source of supply for the Company's own stores.

Revelstoke's management is committed to having the best managed company of its size and kind in Canada, to serving and satisfying an ever increasing number of customers, and to achieving a consistent increase in the earnings of the Company and a satisfactory return on our shareholders' equity. It is hoped that Revelstoke's customers, suppliers, employees and shareholders will all share in the benefits of having the Company realize these goals.

The cover of this year's Annual Report was designed to highlight the fact that more than anything else Revelstoke's success and future growth depend upon the capability of all of the men and women associated with the Company. Keeping these individuals enthusiastic, highly motivated and dedicated to giving customers the best possible service constitutes management's most important day to day task.

WHAT ARE THE COMPANY'S OBJECTIVES

- To serve and satisfy an increasing number of customers.
- To provide the men and women in our Company with the opportunity for advancement and increased personal satisfaction.
- To demonstrate entrepreneurship, leadership and high standards throughout the Company.
- To participate in markets which experience above average growth.
- To monitor closely competitive market conditions.
- To keep our manner of doing business simple and economical.
- To strive for excellence as opposed to imitating others and accepting how things were done in the past without question.
- To increase earnings per share and achieve an acceptable return on shareholders' equity.
- To support community affairs where we are located on a basis consistent with the size of our Company.
- To have fun.

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1975 AT A GLANCE

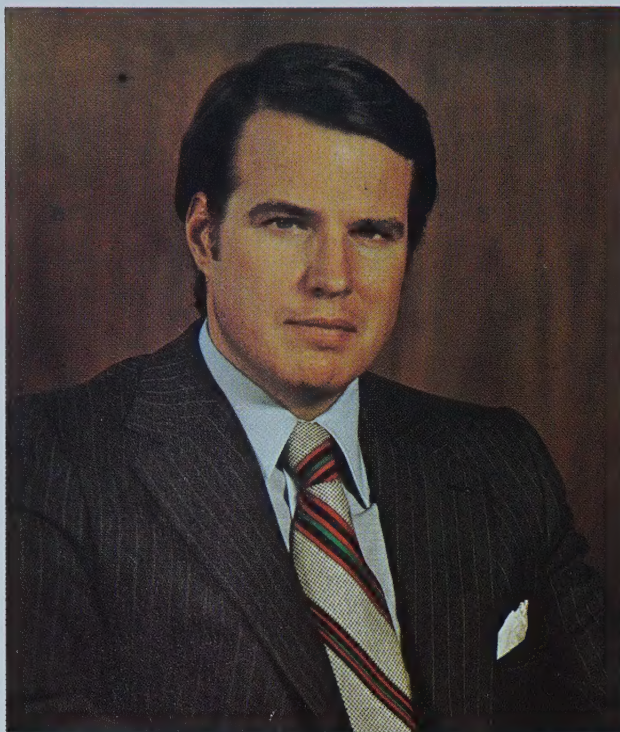
FOR THE YEAR ENDED DECEMBER 31

		Change 1975 - 1974	1975	1974
TOTAL DOLLARS:				
Sales.....	+	16.1%	\$93,304,451	\$80,343,318
Pre Tax Earnings.....	-	2.9%	\$ 4,701,058	\$ 4,842,936
Income Taxes on Earnings.....	-	10.7%	\$ 2,129,849	\$ 2,384,540
Net Earnings for Shareholders.....	+	3.9%	\$ 2,530,973	\$ 2,435,119
Cash Flow.....	-	7.6%	\$ 3,611,187	\$ 3,907,694
Common Share Dividends Paid.....	-	-	\$ 383,953	\$ 382,753
Earnings Retained & Reinvested.....	+	5.1%	\$ 2,022,413	\$ 1,924,843
Capital Expenditures.....	+	15.1%	\$ 2,747,149	\$ 2,386,831
PER SHARE:				
Sales.....	+	15.4%	\$48.34	\$41.88
Earnings - Total.....	+	3.3%	\$ 1.25	\$ 1.21
- Diluted.....	+	4.2%	\$ 1.23	\$ 1.18
Cash Flow.....	-	8.3%	\$ 1.87	\$ 2.04
Common Dividends Paid.....	-	-	\$.20	\$.20
Earnings Retained & Reinvested.....	+	4.0%	\$ 1.05	\$ 1.01
PERFORMANCE MEASUREMENTS:				
Asset Turnover				
(Sales ÷ Assets).....			1.88	1.84
Return on Sales				
(Net Earnings ÷ Sales).....	×	2.71%	×	3.03%
Return on Assets				
(Net Earnings ÷ Assets).....	=	5.09%	=	5.59%
Leverage Factor				
(Assets ÷ Equity).....	×	2.48	×	2.40
Return on Shareholders' Equity				
(Net Earnings ÷ Equity).....	=	12.62%	=	13.43%

Earnings per share are calculated after deducting preferred dividends and are based on the weighted average number of shares outstanding during the year. Capital expenditures are less the proceeds of assets disposed of during the year.

Performance measurements are calculated using the asset and shareholders' equity balances as at the beginning of each year.

PRESIDENT'S REPORT



**"IN 1975 THE COMPANY MADE MORE
PROGRESS IN SALES THAN EARNINGS"**

1975 HIGHLIGHTS

- Total sales increased 16.1% to \$93,304,000 compared with \$80,343,000 in 1974.
- Earnings were \$2,531,000 or \$1.25 per share compared with \$2,435,000 or \$1.21 per share in 1974.
- Dividends were \$0.20 per common share in both 1975 and 1974.
- Gains on the sale of fixed assets totaled approximately the same amount in 1975 as 1974.
- The Company raised \$7,300,000 through a private placement underwriting of debentures in July 1975.
- The Company expanded its retail business in British Columbia with the acquisition of Eccott Building Supplies Ltd. in November 1975.

REVIEW OF 1975

Sales in both the Retail and Concrete Divisions increased in 1975 but earnings were held down by a squeeze in net margins stemming from higher operating costs and lower than expected gross margins. While management was disappointed in the earnings of the Retail Division, the results of the individual stores have been carefully analyzed and those areas requiring corrective action have been identified. Earnings in the Concrete Division were in excess of 1974.

As anticipated, the Lumber Division had an operating loss of \$1,737,000 in 1975 compared with \$1,632,000 in 1974. While most of this loss can be attributed to the low level of lumber prices, the start-up expenses associated with commencing production at the Sundre sawmill, rebuilt after being destroyed by fire in 1974, were another contributing factor.

Revelstoke's Retail Division again accounted for the majority of earnings and increased its proportion of the Company's total sales to 74.9% in 1975. The Concrete and Lumber Divisions accounted for 20.6% and 4.5% of Revelstoke's total sales respectively.

Subsequent sections of this Annual Report contain the operating and financial highlights of each of the three Divisions during 1975. These sections also include a series of the questions most frequently asked by shareholders and financial analysts concerning the Company's three Divisions together with management's answers to these questions. It is hoped that these questions and answers will contribute to a greater understanding of Revelstoke's fundamental business.

OUR PEOPLE

Management is fully aware that Revelstoke's success is directly related to the degree of motivation, skill and enthusiasm exhibited by the men and women working throughout the Company. If we are to achieve Revelstoke's objectives, we must attract the highest quality of individuals to our business and provide them with challenge and proper training programs.

We realize that people today are interested in having more than "just a job" and that it is essential to instill a spirit of partnership between Revelstoke's employees and shareholders. To this end we emphasize a highly personal style of management, encourage decision making at all levels and attempt to promote from within the Company.

Since 1973 Revelstoke has offered its salaried employees the opportunity to participate in an Employee Savings and Stock Purchase Plan whereby for every \$2 contributed by the employees to the purchase of our common shares, the Company contributes \$1. This plan is designed to encourage as

many employees as possible to become shareholders of Revelstoke. In 1975 approximately 50% of all eligible salaried employees belonged to the plan.

At the end of 1975, Revelstoke's management was strengthened by the appointment of Gordon D. Roberts to the newly formed position of Vice President Administration responsible for the Company's accounting, data processing and general administration functions.

FINANCIAL POSITION

In 1975 the Company's total assets increased to \$62,081,000 compared with \$49,692,000 at the end of the prior year. During 1975 inventories and accounts receivable both rose to higher levels, generally reflecting the increase in the Company's overall volume of business. Shareholders' equity also increased in 1975 to \$22,134,000 compared with \$20,054,000 at the end of 1974.

On July 31, 1975 the Company successfully completed a private placement underwriting for \$7,300,000 consisting of \$6,300,000 fifteen year 11-5/8% sinking fund debentures and \$1,000,000 five year 10% serial debentures. The proceeds of this financing were used to repay existing term bank borrowings and to reduce Revelstoke's short-term indebtedness. The Company's working capital position was thereby improved and at the end of 1975 amounted to \$16,126,000 compared with \$10,131,000 a year earlier.

Revelstoke's capital expenditures totaled \$4,206,000 in 1975 compared with \$3,533,000 in the prior year. In 1976 the Company is budgeting capital

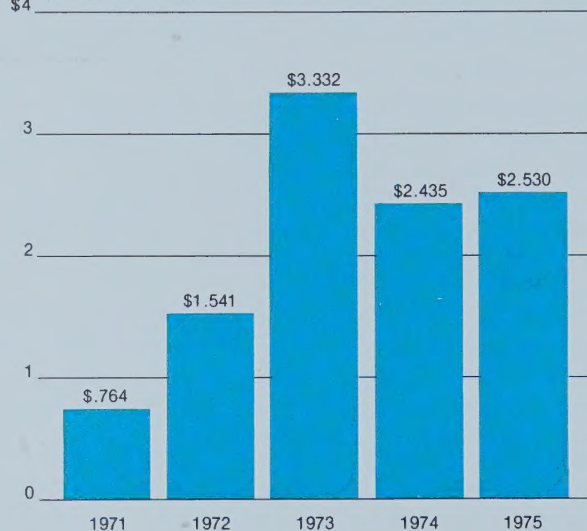
expenditures of \$2,817,000 in the Retail Division, \$318,000 in the Concrete Division and \$307,000 in the Lumber Division. These figures exclude the purchase of mobile equipment which is normally financed on a sale and leaseback basis, and are based on the assumption that the Company's larger new stores will continue to be leased.

DISCLOSURE POLICY

Each year in the Annual Report, management attempts to provide our shareholders and the financial community with extensive information

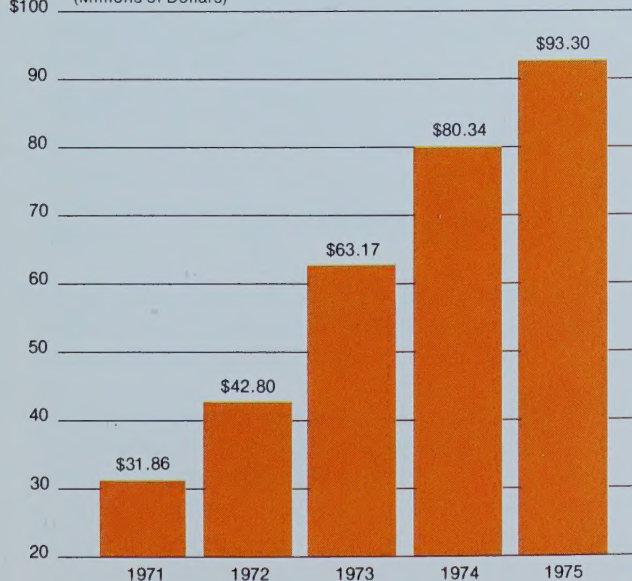
NET EARNINGS

(Millions of Dollars)



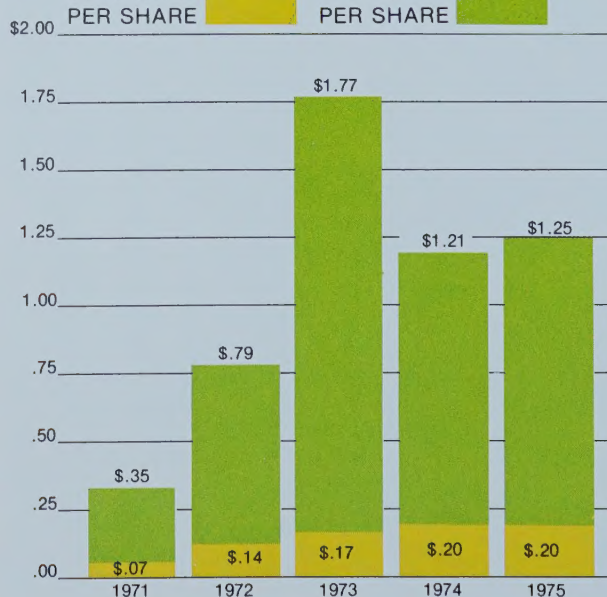
TOTAL SALES

(Millions of Dollars)



DIVIDENDS PER SHARE

EARNINGS PER SHARE



concerning the Company's operations and financial position. In this regard, we probably disclose considerably more factual information than is typical of most public Canadian companies. The only information of consequence that we do not disclose is the exact earnings for each of the three Divisions. The reason for this policy is that our largest competitors in the retail and concrete businesses are national companies involved in many other businesses. These companies generally only disclose financial information on their combined operations. To disclose our earnings by Division would not be prudent as it would permit our major competitors to compare their performance in our markets with Revelstoke when we are not even in a position to discover their sales volume in Western Canada for the similar business.

INFLATION

As our earnings performance demonstrated, Revelstoke did not escape unscathed by inflation in 1975. In almost every area, the increase in our operating expenses exceeded any increase achieved in sales. This was especially the case with the total personnel costs of both the Concrete and Retail Divisions.

In both our Retail and Concrete Divisions, unit sales increased above last year but nevertheless inflation did account for a significant proportion of the sales gain recorded by these two Divisions. In our Retail Division, it is difficult to determine precisely what proportion of our sales increase related to inflation as our stores carry anywhere from 7,000 to 10,000 different individual items. Nevertheless, as our retail business accounts for the greatest proportion of our total sales, we attempt to measure on a month to month basis the extent inflation affects the selling price of our principal products. In 1975 it was estimated that a representative selection of items sold by the stores experienced an overall increase in their selling price of just under 9%.

The federal government's Prices and Incomes Guidelines apply to Revelstoke as we have a total of more than 1,600 employees. This means that the Retail Division is following the price and gross margin guidelines applicable to the distribution industry and the Concrete Division is following the five year net profit margin guidelines applicable to nondistribution businesses. As the Lumber Division experienced a substantial loss in its base period, it will at least be able to recover to a breakeven position. At the current time however it is still unclear as to how the guidelines will apply to our lumber business once the mills begin to generate earnings.

ACQUISITION

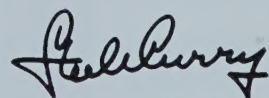
In November 1975 the Company completed the acquisition of approximately 73% of the common shares of Eccott Building Supplies Ltd. which operates three home improvement and building supply stores in British Columbia. Revelstoke will be purchasing the remaining 27% of this firm over the next five years from the President, James E. Eccott, with the price to be determined under an "earn-out" agreement relating to the level of earnings. This acquisition gives Revelstoke a strong position in the Okanagan Valley, which represents one of the fastest growing markets in British Columbia. Eccott's sales in 1975 were in excess of \$12 million. Revelstoke is Canadian controlled and not a "noneligible person" as defined by the Foreign Investment Review Act of the federal government.

OUTLOOK FOR 1976

Based upon results to date and the healthy outlook for business conditions in the Company's principal markets, the prospects are excellent for a meaningful increase in sales and earnings in 1976 compared with 1975. Both Revelstoke's Retail and Concrete Divisions should experience strong demand particularly in Alberta. In addition lumber prices have now recovered to the point where the Company has a reasonable expectation of breaking even in its Lumber Division.

Earlier this year, the Directors approved an increase in the semi annual common share dividend paid on April 1, 1976 from \$0.10 to \$0.12½ per share. At a Special Meeting to be held in conjunction with the Annual Meeting on May 27, the shareholders will be asked to approve a subdivision of Revelstoke's common shares on a two for one basis.

On behalf of the Company's Board of Directors and shareholders, I want to thank Revelstoke's employees for their allegiance and support during 1975. In turn, all of us at Revelstoke want to thank our customers, suppliers and friends for their backing and confidence throughout the year.

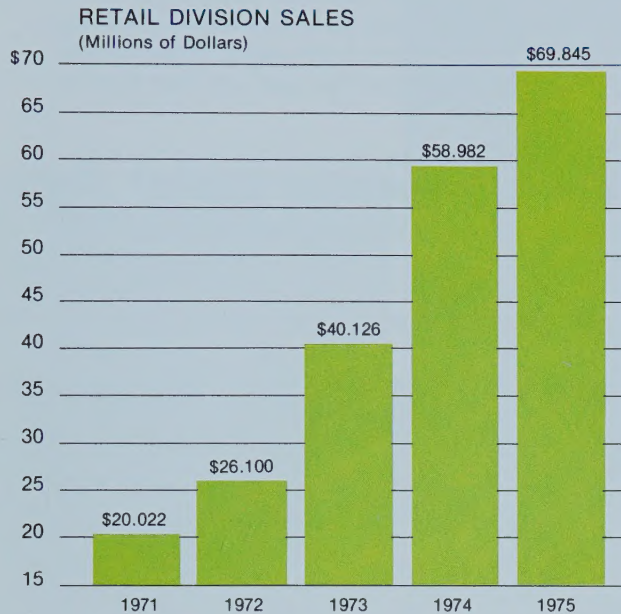


STEELE CURRY

President

April 22, 1976

RETAIL DIVISION



“THE DO-IT-YOURSELF HOME IMPROVEMENT MARKET CONTINUES TO GROW”

1975 RETAIL HIGHLIGHTS

- Sales for the Retail Division increased 18.4% to \$69,845,000 compared with \$58,982,000 in 1974.
- Earnings for the Retail Division were affected by considerably higher operating expenses and lower than expected gross margins at some of the stores.
- Six new stores were built at existing locations, two stores were opened in new markets and three small stores were closed.
- The Company expanded its penetration of the British Columbia market with the purchase in November 1975 of Eccott Building Supplies Ltd. which operates three stores in the Okanagan Valley.
- An existing store was acquired in Whitecourt, Alberta and subsequent to the year end another store was purchased in Leduc, Alberta.
- Capital expenditures amounted to \$2,007,000, excluding the cost of the Eccott transaction, compared with \$802,000 in 1974.

The Retail Division comprises 109 stores located throughout Western Canada with 54 in Alberta, 28 in Saskatchewan, 14 in British Columbia and 13 in Manitoba. The stores are generally referred to as “home improvement centres.” Every store carries a complete selection of lumber products, paneling, building materials, tools, paint, wallpaper, carpeting, hardware, kitchen cabinets, electrical supplies, plumbing and heating equipment. The Retail Division also sells manufactured houses and prebuilt farm buildings.

What has been the growth in Revelstoke’s retail business over the last five years?

The total sales of our Retail Division have increased by three and a half times, rising from \$20,022,000 in 1971 to \$69,845,000 in 1975. This represents an average annual increase of 37.4% which indicates that Revelstoke has experienced a major increase in its share of the Western Canadian retail market. It is also interesting to note that this sales increase has been “across the board” in terms of both our entire product mix and the different types of customers which we serve. The average sales per store have similarly experienced a dramatic increase, rising from \$198,000 in 1971 to \$644,000 in 1975.

Revelstoke describes its 109 stores as “home improvement centres.” What does this term mean?

The term relates to our merchandising philosophy of having each of our stores offer one stop shopping to homeowners wishing to purchase all of the items required for any type of home building, decorating or repair project.



What type of physical facilities does each Revelstoke store require?

In order to do an effective job of selling our products and having on hand those items which our customers require, each of our stores has a showroom, warehouse facilities and outside storage space sufficient to stock a broad assortment of lumber and building materials. Consequently, our stores do not lend themselves to being located within shopping centres.

What is the customer profile of your retail business?

While the mix of customers varies from store to store, on an overall basis 40% of our sales are to homeowners, 20% to farmers or ranchers and 40% to professional customers of all types including tradesmen, builders, industrial accounts and local institutions.

What makes a customer shop at a Revelstoke store?

We believe that the most important factors determining customer patronage, in order of importance, are having knowledgeable sales personnel, maintaining competitive pricing, offering a complete assortment of merchandise within our major product lines and having accessible and convenient store locations.

How vital is having knowledgeable sales personnel in your stores?

We are convinced that having a sales staff capable of providing customers with advice concerning their home improvement projects is extremely important to maximizing the sales of many of our products. We think that self service can only be carried so far in our business and part of the service we offer to customers is being able to provide product knowledge. This means, however, that our Company must devote considerable resources to ongoing training programs for our sales personnel.

What role does Revelstoke's Head Office play in assisting the stores?

The function of the Head Office is to help our stores and their managers maximize sales on a basis which produces a worthwhile return on investment. In this regard, Head Office departments are responsible for creating effective programs in the area of merchandising, advertising, employee sales training, purchasing, management development and store layout and design.

How do Revelstoke's merchandising policies differ from the other large chains in the industry?

Most of the large chains have gone in the direction of opening the "home centre" type of stores which cater strictly to retail customers and carry a large number of product lines unrelated to the basic home improvement business. As a consequence, these

"home centres" are finding themselves involved in direct competition with the major department and discount store chains. We have deliberately restricted our product mix and have continued to regard lumber and building materials as the "gut" product lines of our stores.

What is the outlook for the retail building material and home improvement industry at this time?

We estimate that the do-it-yourself home improvement market is going to experience a growth rate of about 10% per annum for the next five to ten years. The factors responsible for generating this growth



include the cost and shortage of new housing, the rising wage rates of tradesmen, the increase in leisure time and the trend for people to spend more of their discretionary income on improving their homes and less on buying automobiles. More and more homeowners are also realizing that they can save a great deal of money by doing home improvement and repair projects themselves.

Are there any major problems which may adversely affect this industry five to ten years from now?

Some of the larger metropolitan markets may experience "over storing" especially with the "home centre" type of stores. This is less likely to affect retailers such as Revelstoke who are heavily involved



in the lumber and building material business as the number of outlets capable of carrying a broad assortment of this type of merchandise is limited, given the amount of land and the type of zoning required. The cost of opening new stores however, is making all retailers more sensitive to the problem of over storing.

What are Revelstoke's expansion plans for its retail business?

We are definitely interested in becoming involved in another major market outside of Western Canada at some point in the near future. Consequently, management is in the process of deciding on the merits of Revelstoke expanding into either Eastern Canada or the Western United States. In both cases, the industry is still extremely fragmented from the standpoint of having a multitude of different types of retailers selling home improvement products.



What is the Company's philosophy in acquiring other chains in your business?

We are interested in purchasing chains which are the leading retailer of building materials and home improvement products within a given region or market area. If we expand into Eastern Canada or the Western United States, we would look for an already established chain with a strong management team capable of continuing to run their business on an autonomous basis. In our opinion, one of the essential ingredients in operating a successful chain is having strong decentralized management. After we acquired Stewart & Hudson and Eccott Building Supplies, both of these firms retained their own Head Offices and continued to operate under their original store names.

What held down the earnings of the Retail Division below expectations in 1975?

The two principal factors inhibiting the Company from increasing its retail earnings above the level achieved in 1974 were increases in practically all operating costs and a lower gross margin than had been expected at some of the stores. The most significant operating costs in our business are wages and salaries which recorded a substantial rise in 1975. In essence, we had to adjust our compensation levels upward in response to the increase in the cost of living and competitive pressures. During the year, we also experienced an abnormal number of price increases from our suppliers which made it difficult to keep our retail prices current. This problem was compounded by the fact that a high proportion of the items we sell are in effect commodity type products, especially in the case of lumber and building materials.

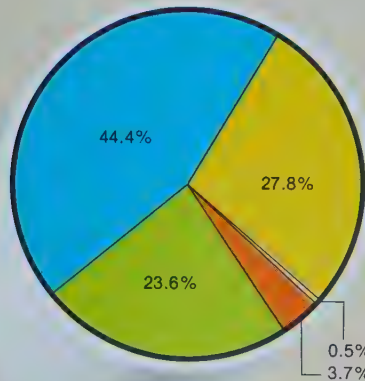
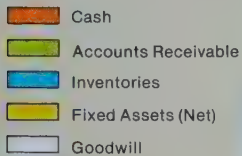
How do you expect your Retail Division to perform in 1976?

There is every indication that the sales of the Retail Division are going to increase substantially in 1976. Management is reasonably confident of translating the additional sales volume into a worthwhile increase in earnings.

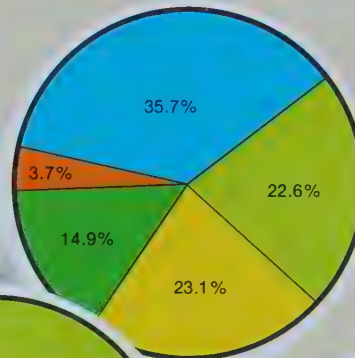
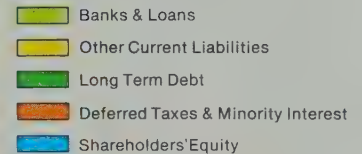


HIGHLIGHTS OF FINANCIAL POSITION

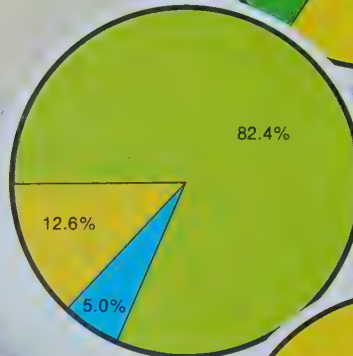
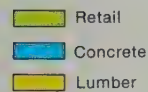
ASSETS 1975



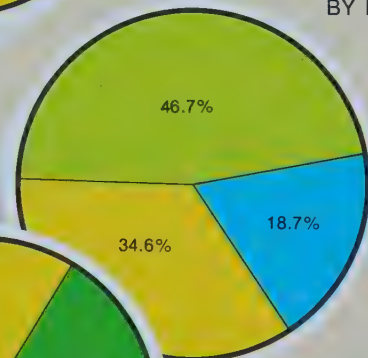
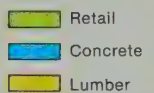
LIABILITIES & SHAREHOLDERS' EQUITY 1975



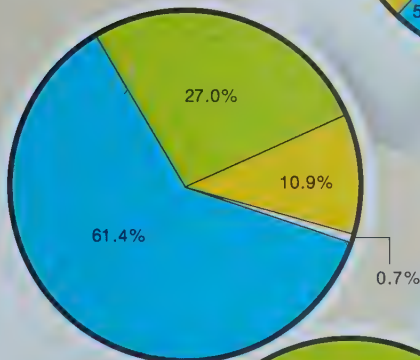
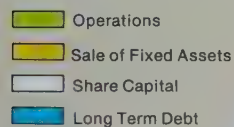
INVENTORY BY DIVISION 1975



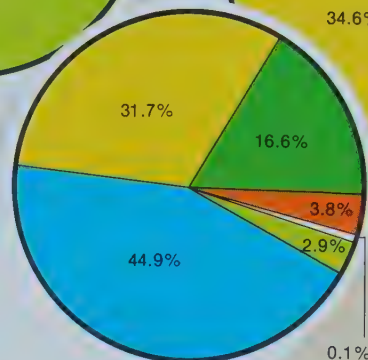
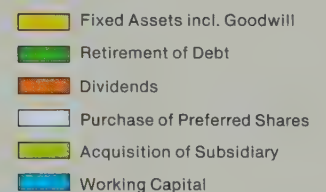
FIXED ASSETS BY DIVISION 1975



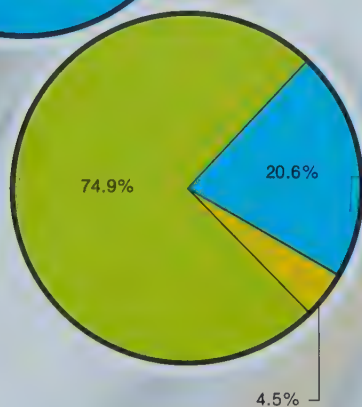
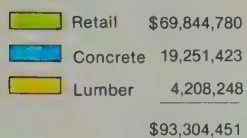
SOURCE OF FUNDS 1975



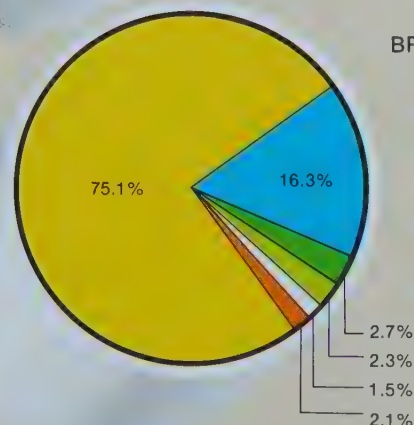
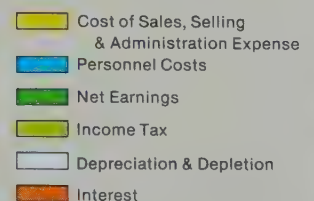
APPLICATION OF FUNDS 1975



SALES BY DIVISION 1975



BREAKDOWN OF EVERY \$1. SALES 1975



REVELSTOKE COMPANIES LTD.

Consolidated Balance Sheet

December 31

ASSETS

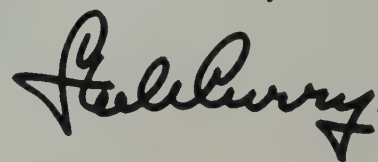
	1975	1974
Current Assets		
Cash	\$ 2,276,764	\$ 2,204,147
Accounts Receivable	14,646,800	11,989,244
Inventories, Valued at the Lower of Cost or Net Realizable Value (Note 2)	27,603,242	20,940,653
	44,526,806	35,134,044
Property, Plant and Equipment, at Cost (Notes 1 and 3)	31,436,803	27,846,744
Less: Accumulated Depreciation and Depletion	14,194,720	13,288,642
	17,242,083	14,558,102
Goodwill, less Amortization (Note 1)	312,029	-
Total Assets	\$62,080,918	\$49,692,146

APPROVED BY THE BOARD:

Director



Director



LIABILITIES AND SHAREHOLDERS' EQUITY

	1975	1974
Current Liabilities		
Bank Indebtedness	\$ 3,665,527	\$ 1,917,823
Short Term Loans	10,377,571	15,709,130
Accounts Payable and Accrued Liabilities	12,084,752	6,071,572
Income Taxes Payable	1,120,876	341,624
Long Term Debt Due Within One Year (Note 5)	1,152,285	963,000
	<u>28,401,011</u>	<u>25,003,149</u>
Long Term Debt (Note 5)	9,258,497	3,028,320
Deferred Income Taxes	1,809,542	1,535,247
Minority Interest	477,988	71,701
Shareholders' Equity		
Capital Stock (Note 6)		
Preference Shares Issued	2,061,580	2,095,780
Common Shares Issued	4,019,443	3,927,505
Retained Earnings	<u>16,052,857</u>	<u>14,030,444</u>
Total Shareholders' Equity	<u>22,133,880</u>	<u>20,053,729</u>
Commitments and Contingent Liability (Note 8)		
Total Liabilities and Shareholders' Equity	<u>\$62,080,918</u>	<u>\$49,692,146</u>

Auditors' Report

To the Shareholders of
Revelstoke Companies Ltd.

We have examined the consolidated balance sheet of Revelstoke Companies Ltd. as at December 31, 1975 and the consolidated statements of current and retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the consolidated financial position of the companies as at December 31, 1975 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.

Chartered Accountants

April 1, 1976

REVELSTOKE COMPANIES LTD.

Consolidated Statement of Current and Retained Earnings

For The Year Ended December 31

	1975	1974
Current Earnings		
Sales - Retail Division	\$69,844,780	\$58,981,575
Concrete Division	19,251,423	14,471,450
Lumber Division	4,208,248	6,890,293
	<u>93,304,451</u>	<u>80,343,318</u>
Costs and Expenses		
Cost of Sales, Selling, General and Administrative	85,846,115	72,427,989
Depreciation, Depletion and Amortization (Note 1)	1,364,678	1,515,158
Interest (Long Term: 1975 - \$590,367; 1974 - \$365,694)	1,976,033	2,132,680
	<u>89,186,826</u>	<u>76,075,827</u>
	4,117,625	4,267,491
Gain on Disposal of Fixed Assets	<u>583,433</u>	<u>575,445</u>
	4,701,058	4,842,936
Provision for Income Taxes		
Current	1,855,554	1,820,265
Deferred	274,295	564,275
	<u>2,129,849</u>	<u>2,384,540</u>
Earnings before Minority Interest	2,571,209	2,458,396
Minority Interest	40,236	23,277
Net Earnings for the Year	<u>\$ 2,530,973</u>	<u>\$ 2,435,119</u>
Net Earnings Per Common Share (Note 1)		
Basic	<u>\$1.25</u>	<u>\$1.21</u>
Fully Diluted	<u>\$1.23</u>	<u>\$1.18</u>
Gain on Disposal of Fixed Assets Net of Tax, included above	<u>\$0.25</u>	<u>\$0.22</u>
Retained Earnings		
Balance at Beginning of Year	\$14,030,444	\$12,105,601
Additions		
Net Earnings for the Year	2,530,973	2,435,119
	<u>16,561,417</u>	<u>14,540,720</u>
Deductions		
Dividends on Preference Shares	124,607	127,523
Dividends on Common Shares	383,953	382,753
Balance at End of Year	<u>\$16,052,857</u>	<u>\$14,030,444</u>

REVELSTOKE COMPANIES LTD.

Consolidated Statement of Changes in Financial Position

For The Year Ended December 31

	1975	1974
Source of Funds		
Net Earnings for the Year	\$ 2,530,973	\$ 2,435,119
Add (Deduct) Items Not Affecting		
Funds From Operations		
Depreciation, Depletion and		
Amortization (Note 1)	1,364,678	1,515,158
Deferred Taxes	274,295	564,275
Gain on Disposal of Fixed Assets	(583,433)	(575,445)
Other	24,674	(31,413)
Funds from Operations	3,611,187	3,907,694
Long Term Debt	8,203,950	-
Proceeds on Disposal of Fixed Assets	1,458,459	1,145,876
Shares Issued	91,938	51,250
	<u>13,365,534</u>	<u>5,104,820</u>
Application of Funds		
Fixed Assets	4,205,608	3,532,707
Purchase of Preference Shares	20,005	32,040
Dividends	508,560	510,276
Long Term Debt	2,220,171	946,907
Goodwill	34,400	-
Acquisition of Subsidiary Companies		
(Less working capital at date of acquisition)	381,890	-
	<u>7,370,634</u>	<u>5,021,930</u>
Increase in Working Capital	5,994,900	82,890
Working Capital at Beginning of Year	10,130,895	10,048,005
Working Capital at End of Year	<u>\$16,125,795</u>	<u>\$10,130,895</u>
Changes in Components of Working Capital		
Current Assets		
Cash	\$ 72,617	\$ 1,002,676
Accounts Receivable	2,657,556	2,305,737
Inventories	6,662,589	1,370,197
	<u>9,392,762</u>	<u>4,678,610</u>
Current Liabilities		
Bank Indebtedness	1,747,704	(661,960)
Short Term Loans	(5,331,559)	7,596,946
Accounts Payable and Accrued Liabilities	6,013,180	(1,555,419)
Income Taxes Payable	779,252	(848,847)
Long Term Debt Due Within One Year	189,285	65,000
	<u>3,397,862</u>	<u>4,595,720</u>
Increase in Working Capital	<u>\$ 5,994,900</u>	<u>\$ 82,890</u>

REVELSTOKE COMPANIES LTD.

Notes To Financial Statements

December 31, 1975

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and all of its subsidiary companies from their effective dates of acquisition. All of the subsidiary companies are wholly owned with the exception of Revelstoke-Lafarge Ltd., which is 85% owned and Eccott Building Supplies Ltd., which is 73% owned. Inter-company balances and transactions are eliminated.

DEPRECIATION

	Basis	Rate based on service lives or estimated reserves
Buildings	Straight-line	2.5% - 5%
Machinery and Equipment	Straight-line	10% - 30%
Logging Access Roads	Unit of production	Based on estimated reserves
Sand and Gravel Rights and Properties	Unit of production	Based on estimated reserves
Timber Rights and Leases	Straight-line	5%

GOODWILL

Goodwill acquired after December 31, 1973 in conjunction with the purchase of fixed assets and subsidiaries is being amortized over periods ranging from five to forty years.

NET EARNINGS PER COMMON SHARE

The basic earnings per share are calculated using the weighted average of shares outstanding for the year. Fully diluted earnings per share adjust the basic earnings for outstanding share conversion and option agreements.

NOTE 2 INVENTORIES

Inventory values by Division are as follows:

	1975	1974
Retail Division	\$22,745,242	\$15,879,653
Concrete Division	1,392,000	918,000
Lumber Division	3,466,000	4,143,000
	<u>\$27,603,242</u>	<u>\$20,940,653</u>

NOTE 3 PROPERTY, PLANT AND EQUIPMENT

	1975		1974	
	Cost	Net Book Value	Cost	Net Book Value
Land	\$ 2,240,358	\$ 2,240,358	\$ 1,297,857	\$ 1,297,857
Buildings	8,919,201	5,654,748	7,536,860	4,497,089
Machinery and Equipment	15,074,283	6,483,857	14,108,026	5,994,203
Logging Access Roads	2,253,828	1,214,453	2,042,147	1,064,274
Sand and Gravel Rights and Properties	710,777	473,162	623,499	471,455
Timber Rights and Leases	2,238,356	1,175,505	2,238,355	1,233,224
	<u>\$31,436,803</u>	<u>\$17,242,083</u>	<u>\$27,846,744</u>	<u>\$14,558,102</u>

NOTE 4 ACQUISITION OF SUBSIDIARIES

Effective November 1, 1975 the Company acquired a 73% interest in Eccott Building Supplies Ltd. and its wholly owned subsidiary Kelowna Wholesale Building Supplies Ltd.

The following net assets were acquired:

Working capital	\$1,296,170
Land	250,560
Buildings and Equipment	462,472
Other	1,321
Goodwill	282,676
	<u>2,293,199</u>
Less: Long term debt	261,100
	<u>2,032,099</u>
Minority interest	366,051
Purchase price	<u>\$1,666,048</u>

The purchase consideration consisted of 10% Serial Notes amounting to \$698,000 and the balance in cash.

The Company has entered into agreements to acquire the minority interest in Eccott Building Supplies Ltd. over a five year period by the issuance of shares of Revelstoke Companies Ltd. The number of shares to be issued will be determined by reference to the earnings of Eccott and the market value of Revelstoke shares, with minimum considerations of \$107,185 in 1976 and 1977 and \$102,524 in each of 1978, 1979 and 1980.

NOTE 5 LONG TERM DEBT

	1975	1974
Sinking Fund Debentures, 11-5/8% due 1990 (Annual sinking fund requirement \$600,000, commencing July 31, 1981)	\$ 6,223,439	\$ -
Sinking Fund Debentures, 6.5% due 1981 (Annual sinking fund requirement \$297,720)	1,321,353	1,641,320
Serial Debentures, 10% (Repayable \$200,000 annually, 1976 to 1981)	988,540	-
Serial Notes, 10%, (Repayable \$139,600 annually, 1976 to 1980)	698,000	-
8% Convertible Term Notes (Repayable \$200,000 annually or at the option of the holder convertible into common shares of the Company as to \$200,000 principal amount annually at prices ranging from \$20.16 per share in 1976 to \$29.03 per share in 1978)	600,000	800,000
Agreement Payable, 10% (Repayable \$150,000, 1976 thereafter \$49,067 annually, 1977 to 1979)	297,200	-
Debenture, 8% (Repayable 1976)	-	-
Mortgages, at 2% above prime rate (Repayable \$25,380 annually)	128,665	-
Bank Loans, at 1.25% above prime rate	-	1,550,000
	<u>10,410,782</u>	<u>3,991,320</u>
Long Term Debt Due Within One Year	<u>1,152,285</u>	<u>963,000</u>
	<u>\$ 9,258,497</u>	<u>\$3,028,320</u>

The Trust Indenture governing the Sinking Fund 6.5% 1981 Debentures provides that the Company cannot become liable upon any additional funded obligations which in any year prior to September 1, 1981 mature in amounts that exceed the sinking fund payments unless the latter are correspondingly increased, except that up to 30% of any subsequent issue of debentures may be issued as Serial Debentures having annual serial maturities prior to September 1, 1981.

As a result of repaying the Long Term Bank Loans in 1975, the Sinking Fund requirements for the 6.5% Sinking Fund Debentures have been reduced from \$500,000 to \$297,720 annually.

Aggregate annual maturities for the next five years are as follows:

1976	\$1,152,285
1977	\$ 911,767
1978	\$ 911,767
1979	\$ 711,767
1980	\$ 524,600

NOTE 6 CAPITAL STOCK

PREFERENCE SHARES

The 300,000 authorized preference shares of a par value of \$20.00 each are issuable in series, of which 125,000 have been designated as 6% cumulative redeemable shares 1961 series and are redeemable at \$20.50 plus any accrued and unpaid dividends as at the date of redemption and 9,351 have been designated as 1% non-cumulative redeemable preference shares 1970 series.

The 6% cumulative redeemable shares 1961 series issued and outstanding are as follows:

	1975		1974	
	Shares	Amount	Shares	Amount
Balance, beginning of year	104,789	\$2,095,780	107,249	\$2,144,980
Purchased on open market and tendered for cancellation	1,710	34,200	2,460	49,200
Balance, end of year	103,079	\$2,061,580	104,789	\$2,095,780

COMMON SHARES

6,000,000 common shares of no par value are authorized. Common shares issued and outstanding are as follows:

	1975		1974	
	Shares	Amount	Shares	Amount
Balance, beginning of year	1,918,515	\$3,927,505	1,910,015	\$3,876,255
Issued for cash under employee stock purchase plan	11,746	91,938	8,500	51,250
	1,930,261	\$4,019,443	1,918,515	\$3,927,505

Shares reserved for conversion of 8% Convertible Term Notes	25,077
Shares reserved for employee stock options	13,500
Shares reserved for employee stock purchase plan	26,254
	64,831

At December 31, 1975, options in respect to 13,500 shares at \$6.15 per share remained outstanding, exercisable as to 4,500 shares per year on a cumulative basis. The options expire in 1977.

NOTE 7 REMUNERATION

The remuneration of directors and senior officers in 1975 amounted to \$376,262 compared to \$292,317 in 1974.

NOTE 8 COMMITMENTS AND CONTINGENT LIABILITY

At December 31, 1975, the Company operated 109 retail branches. The properties relating to 96 of these branches are owned with those relating to the other 13 being leased for terms varying from five to twenty years at minimum annual rentals (exclusive of taxes, insurance and other occupancy charges) as shown below. The Company also has equipment under lease for terms varying from five to seven years.

The lease payments required over the next five years are as follows:

	Properties	Equipment
1976	\$443,233	\$906,107
1977	\$384,141	\$906,107
1978	\$352,803	\$892,909
1979	\$370,289	\$792,283
1980	\$359,729	\$486,527

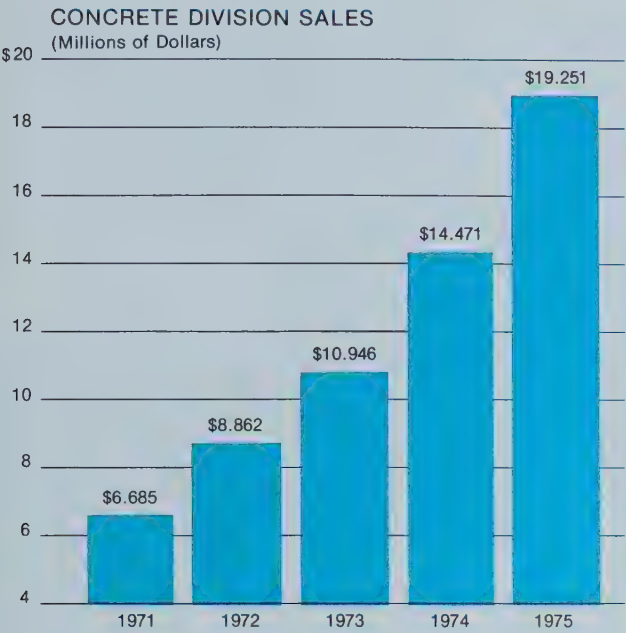
A Statement of Claim has been issued against the Company in the amount of \$225,000. Company officials do not believe any significant liability will arise from this claim.

Commitment to acquire minority interest in Eccott Building Supplies Ltd. as described in Note 4.

NOTE 9 ANTI-INFLATION PROGRAM

The Company and its subsidiaries are subject to controls on prices, profits, compensation and dividends instituted by the Federal Government in the Anti-Inflation Act effective October 14, 1975. Uncertainties concerning application of the program are such that the impact on the Companies' future operations cannot be accurately determined.

CONCRETE DIVISION



“DEMAND FOR CONCRETE IN OUR MARKETS
SHOULD REMAIN STRONG”

1975 CONCRETE HIGHLIGHTS

- Sales for the Concrete Division increased 33% to \$19,251,000 compared with \$14,471,000 in 1974.
- Earnings for the Concrete Division were in excess of the prior year.
- The number of plants was increased to 19 with the acquisition in August 1975 of an additional plant in Camrose, Alberta.
- The Company expanded its sand and gravel operations in Central Alberta and Saskatchewan.
- Capital expenditures in the Concrete Division amounted to \$1,451,000, including the cost of acquisitions, compared with \$1,422,000 in 1974. Mobile equipment, costing an additional \$1,567,000 in 1975 compared with \$700,000 in 1974, was financed through sale and leasebacks.

The Concrete Division consists of 19 redi-mix concrete plants with 13 in Alberta, four in Saskatchewan and two in British Columbia. At six of these locations, Revelstoke also operates its own sand and gravel deposits for the purpose of supplying the Company's concrete plants as well as selling sand and gravel directly to other customers.

What is Revelstoke's position in the Western Canadian concrete business?

Revelstoke's Concrete Division operates primarily in Alberta and Saskatchewan where the Company is the largest independent supplier of concrete. The other major suppliers in these provinces are subsidiaries of Canada's two largest cement companies. Over the last five years, sales of Revelstoke's Concrete Division have grown from \$6,685,000 in 1971 to \$19,251,000 in 1975 which represents an average annual growth rate of 30.2%.

What is concrete?

Concrete consists of cement, sand, gravel, water and various other additives which are mixed on a controlled basis. The principal ingredient in concrete is cement which is responsible for concrete's unique strength and enduring qualities. Concrete is one of the most versatile of construction materials and is used for foundations of all types, residential patios, drive-ways, farm building projects and government public works programs.

What are the physical facilities at each of Revelstoke's concrete plants?

Every plant has a batch plant, a fleet of concrete mixer trucks and facilities for the storage of cement, sand, gravel aggregates and other additives. The batch plant contains the equipment necessary for the controlled measurement and mixing of the ingredients to make concrete. The larger plants also have their own garages for maintaining and housing trucks.

How do Revelstoke's plants operate?

Upon receiving a customer order, the dispatcher uses radio to call for a concrete mixer truck to back into the batch plant. The batcherman uses a control panel to select the ingredients necessary to produce the desired strength and type of concrete for the customer's project. The concrete is batched in the plant and then funneled into the mixer of the truck. The dispatcher directs the truck driver to the site of the project where the concrete is poured.



What is Revelstoke's involvement in the sand and gravel business?

Revelstoke has its own sand and gravel operations at six locations in conjunction with the Company's concrete plants in nearby areas. This provides these plants with an assured source of sand and gravel. In addition, Revelstoke also sells sand and gravel to customers such as municipalities, contractors and other concrete plants.

Who are the customers of the Company's Concrete Division?

This varies from plant to plant, but local builders account for a majority of sales with the remainder being sold to homeowners, farmers and government agencies.

What are the critical factors in operating a successful concrete plant?

The plant must have the necessary physical facilities and trained personnel to provide a high level of customer service and a quality product at competitive prices. This includes being able to give customers reliable delivery at the critical times when concrete is required in the construction process. The capabilities of the manager, however, are the most important factor in ensuring the success of any plant.

Are any major problems confronting the concrete industry?

The most significant problem in the industry is that gains in productivity are not offsetting increases in costs, with the consequence that it has proved impossible to stabilize the price of concrete. This situation has been aggravated by the escalation in labour costs, influenced by rates in the construction and transportation industries, and the increase in material costs resulting from the suppliers' much higher energy, environmental and labour costs. If these cost trends continue, concrete as well as practically all other components of construction including tradesmen will ultimately become prohibitively expensive to use.

How do Revelstoke's concrete plants relate to the Company's retail business?

The stores and the concrete plants are major suppliers to the same customers who are involved in construction. In most communities where Revelstoke has both a store and concrete plant, the Company has one manager responsible for both operations which ensures close co-ordination of service to all customers.

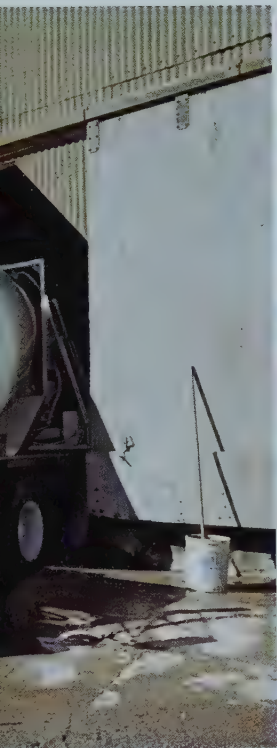
What are Revelstoke's plans for expanding its concrete business?

The Company is interested in acquiring additional plants in Alberta which represents the Concrete Division's primary market area.

What is the outlook for the Concrete Division in 1976?

General construction and business activity in the Concrete Division's markets should remain strong throughout the year. Despite rising costs, the Concrete Division is again expected to make a meaningful contribution to Revelstoke's earnings in 1976.

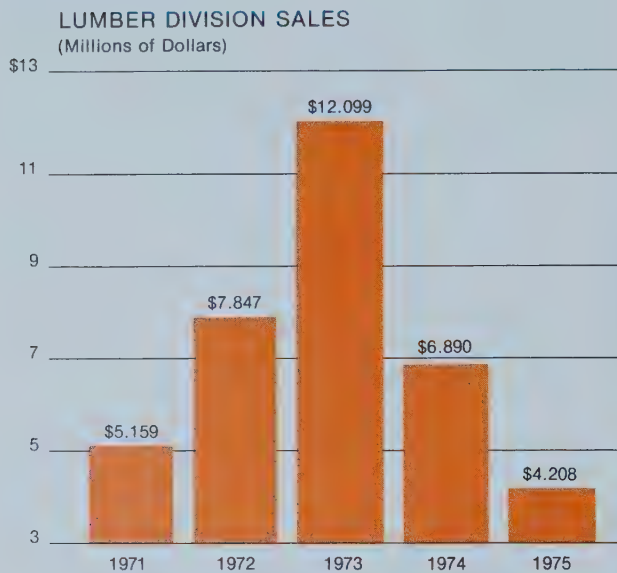




This is a section of the Calgary Zoo built with concrete supplied by Revelstoke.



LUMBER DIVISION



“THE LUMBER BUSINESS IS RECOVERING”

1975 LUMBER HIGHLIGHTS

- Sales for the Lumber Division decreased 38.9% to \$4,208,000 compared with \$6,890,000 in 1974, excluding inter-company sales which were \$2,519,000 in comparison with \$2,365,000 in 1974.
- The Lumber Division experienced an operating loss of \$1,737,000 compared with \$1,632,000 in 1974.
- The Company's four mills shipped 54,000,000 board feet of lumber compared with 76,000,000 board feet in 1974.
- Lumber prices were depressed throughout most of the year but started to recover in late November 1975, mainly as a result of a revival in U.S. housing starts.
- The Company's mills were virtually shut down for one-third of 1975 when prices did not justify continuing production.
- The Company's quotas, mill equipment and properties at Whitecourt, Alberta were sold in September 1975.
- Capital expenditures in the Lumber Division amounted to \$747,000 compared with \$1,309,000 in 1974 with most of the funds being spent on building roads to gain access to timber quotas.

The Lumber Division operates four lumber mills which are located in British Columbia at Radium and in Alberta at Rocky Mountain House, Sentinel and Sundre.

What has taken place in Revelstoke's Lumber Division over the last five years?

The production output and efficiency of our mills have been severely handicapped in each of the last five years by a major rebuilding program affecting all but one of the mills. This was in part necessitated by the extraordinary situation of having fire destroy one of our sawmills in 1972 and two in 1974. Subsequently two of these sawmills were rebuilt. In addition production at the Radium mill has been disrupted by two industry wide strikes over the last five years. The net effect of all of these factors is that at no point since 1971 have all the mills been in a position to operate at full production. The market for lumber has also been highly erratic and prices have been depressed for three of the last five years.

What is involved in manufacturing lumber at the Company's mills?

Each of the mills have their own timber quotas and utilize logging contractors who cut and haul the logs to the mills. The logs are sorted for size and species and then processed through the sawmill to produce the maximum saleable footage. After the rough sawed lumber is sorted to length and width, it is either placed in the dry kilns at the Radium or Sentinel mills or piled in the storage yards at the other mills to dry. After drying, the lumber is processed through a planing mill and graded prior to being shipped by rail or truck to our wholesalers or to the Company's stores. The lumber chips produced as part of the manufacturing process at Radium and Sentinel are sold to a nearby pulp mill.

What type of lumber do the mills produce?

The Radium mill produces spruce, fir and a very small amount of cedar. The three Alberta mills produce almost exclusively spruce. On an aggregate basis, spruce accounts for about 90% of the Company's production.

What are the timber quotas of the four mills?

Revelstoke's annual timber quotas total approximately 103,200,000 board feet with the Radium mill having 64,000,000, Sentinel 17,900,000, Rocky Mountain House 12,300,000 and Sundre 9,000,000 board feet. These quotas are granted by the provincial governments for a 20 year period and renewed subject to performance.

Who purchases the lumber sold by the mills?

In 1975 48% of the Company's lumber shipments were sold to domestic customers including wholesalers, large developers and industrial accounts on a



What is likely to be the most significant long term problem facing the Canadian lumber manufacturing industry?

It is clear that the greatest problem for the Canadian industry is the fact that labour costs and productivity are getting significantly out of line with American lumber manufacturers. Consequently, Canadian lumber producers already require a higher level of lumber prices than their American counterparts in order to obtain a worthwhile return on investment.

How does Revelstoke's Lumber Division relate to the Company's retail business?

Historically, Revelstoke's stores have purchased anywhere from 35% to 50% of their lumber requirements from the Company's own mills. Consequently, the mills offer the stores an assured supply of lumber which in certain years can be extremely difficult to obtain. In purchasing lumber from our mills, the stores also eliminate the sales commission which is paid to lumber wholesalers.

What is the outlook for lumber prices in 1976?

Starting in late November of 1975, lumber prices began to move upwards until the beginning of March of this year. While there has been some softness in the market during March, we anticipate that lumber



direct basis. In addition 12% of the shipments were sold to U.S. export customers and 40% to the Company's own stores. In more normal years the export market usually accounts for a higher proportion of the mills' total sales.

What are the most important factors in operating a profitable lumber mill?

The principal factors are having log sizes that enable the mill to produce the optimum lengths and widths, having qualified supervisory personnel and a stable labour force, having up-to-date mill machinery capable of minimizing production down time, and having a knowledgeable sales department. The ultimate profitability of any lumber mill, however, is dependent upon the level of lumber prices which is determined by worldwide and, in particular, American demand for lumber.

prices will remain at their current levels for the second quarter and will move even higher in the latter half of the year. In 1975 American housing starts, still the most significant determinant of Canadian lumber prices, were at their lowest level since 1946. Most economists are estimating that U.S. housing starts will recover to at least 1,500,000 starts in 1976. Overseas demand should also recover to a certain extent and the Canadian housing industry should continue to be reasonably active.

Will Revelstoke's lumber mills be able to generate a profit in 1976?

For the first time in three years, the Lumber Division has a reasonable opportunity at least to break even, as the production facilities of all four mills are fully operative and lumber prices are at higher levels than last year.

INFORMATION ON OUR MARKETS

POPULATION AND HOUSEHOLDS WESTERN CANADA

1

	POPULATION			HOUSEHOLDS		
	Population (000)	Percentage Increase	Percentage Canada	Households (000)	Percentage Increase	Percentage Canada
1975	6,174	+ 2.2	27.0	1,836	+ 3.0	27.7
1974	6,039	+ 2.2	26.9	1,782	+ 0.7	27.9
1973	5,911	+ 1.6	26.7	1,770	+ 3.4	28.2
1972	5,817	+ 1.6	26.6	1,711	+ 0.9	28.0
1971	5,727	+ 1.3	26.6	1,697	+ 7.3	28.0
1970	5,654	—	26.5	1,582	—	28.3

NOTE:

1. Population reported at July 1 of each year, except for 1971 which is derived from census data dated June 30, 1971.
2. Number of households reported at April 1 for 1970 and 1972, at June 30 for the 1971 census, and at June 1 for the remaining years.

SOURCE:

Statistics Canada, Quarterly Population Estimates; The Financial Post Survey of Markets.

HOUSING PERMITS AND STARTS WESTERN CANADA

2

	HOUSING PERMITS ISSUED			HOUSING STARTS		
	Total Units	Percentage Change	Percentage Canada	Total Units	Percentage Change	Percentage Canada
1975	81,333	+ 28.6	33.9	77,209	+ 15.5	33.4
1974	63,222	- 18.2	31.8	66,864	- 12.6	30.1
1973	77,281	+ 8.5	28.5	76,521	+ 2.4	28.5
1972	71,217	+ 5.0	29.3	74,733	+ 0.1	29.9
1971	67,798	+ 33.1	29.4	74,632	+ 37.6	31.9
1970	50,949	—	28.5	54,255	—	28.5

NOTE:

1. Housing permits issued and housing starts include single family dwellings, multi-family dwellings and cottages. Housing permits also include conversions.

SOURCE:

Statistics Canada, Building Permits; C.M.H.C., Housing Statistics.

VALUE OF CONSTRUCTION PERMITS ISSUED WESTERN CANADA

3

	TOTAL CONSTRUCTION			RESIDENTIAL CONSTRUCTION		
	(000)	Percentage Change	Percentage Canada	(000)	Percentage Change	Percentage Canada
1975	\$3,527,903	+ 24.2	33.3	\$2,149,499	+ 45.0	35.1
1974	2,841,527	+ 18.5	30.6	1,482,477	+ 9.0	32.4
1973	2,397,240	+ 30.5	27.9	1,359,814	+ 27.3	28.5
1972	1,836,788	+ 12.1	28.6	1,068,288	+ 14.3	29.6
1971	1,639,237	+ 27.6	28.7	934,915	+ 44.5	29.2
1970	1,284,265	—	27.3	647,162	—	28.0

NOTE:

1. Value of total construction permits includes residential, industrial, commercial, institutional and government buildings.
2. Value of residential construction permits includes new residential dwellings of all types, cottages, conversions, and alterations and improvements to existing dwellings.

SOURCE:

Statistics Canada, Building Permits.

OUR MARKETS: Revelstoke's 109 stores, 19 concrete plants and four lumber mills are all situated in the four western provinces of Canada. In 1975 approximately 55.1% of the Company's total sales were generated in Alberta, 20.6% in British Columbia, 18.2% in Saskatchewan and 6.1% in Manitoba.

Alberta continued to represent Revelstoke's most significant market and business conditions in that province were considerably healthier than in the rest of Canada. Since this situation should prevail for the foreseeable future, the Company is committed to expanding its already substantial market position in Alberta, especially in the retail business where Revelstoke has stores in 49 of the province's communities. The economy in British Columbia, the Company's second largest market, was somewhat depressed for most of 1975 but began to recover towards the end of the year. While Saskatchewan continued to benefit from record levels of prosperity, Manitoba's economy was partly affected by a decline in housing activity in comparison with 1974.

This section of the Annual Report contains market research information describing the Western Canadian market and the magnitude of the sales potential for the Company's products. In the accompanying Tables, Western Canada refers to British Columbia, Alberta, Saskatchewan and Manitoba.

POPULATION AND HOUSEHOLDS: Table 1 indicates that Western Canada currently has a population of 6,174,000 which represents an increase of 9.2% over the last five years. In analyzing the market potential for home improvement products, it is usually even more meaningful to consider the total number of households in any market. Since 1970 the number of households in Western Canada has increased 16.1% to 1,800,036 with the greater percentage increase in households than population occurring as a result of a decline in the number of persons per household. Revelstoke distributed promotional fliers to over 720,000 households during its recent 1976 Annual Spring Sale.

HOUSING PERMITS AND STARTS: In order to give a complete record of housing activity in Western Canada, Table 2 provides information on both housing permits and housing starts. It should be noted that not all houses are built following the issue of a permit nor are housing permits necessarily required in certain rural areas. Nevertheless the statistics for both housing permits and starts demonstrate that Western Canada has accounted for a steadily increasing proportion of Canada's total housing activity over the last five years. In addition there is traditionally a higher proportion of single family houses constructed in Western Canada than in the rest of Canada. Single family permits in 1975 represented 57.1% of total permits in Western Canada compared with 49.5% for all of Canada.

In 1974 Western Canada's drop in housing activity was definitely not as severe as the rest of Canada and in 1975 Western Canada's recovery in housing was much stronger. Last year Western Canada accounted for slightly over one-third of both housing permits and housing starts in Canada. The level of housing activity is obviously important to Revelstoke's Concrete Division and to the professional sales of the Retail Division. The higher proportion of single family compared with multi-family housing is also significant as occupants of single family dwellings generate a much higher amount of retail sales than those in multi-family dwellings. In addition to supplying builders of all types, the Company's Retail Division also markets manufactured houses in rural areas of the three prairie provinces.

VALUE OF CONSTRUCTION: Table 3 illustrates that the value of both total construction and residential construction has exhibited a steady and high rate of growth in Western

4

DISPOSABLE INCOME WESTERN CANADA

	TOTAL DISPOSABLE INCOME			HOUSEHOLD DISPOSABLE INCOME		
	(000,000)	Percentage Change	Percentage Canada	Average Per Household	Percentage Change	Comparison To Canadian Average
1975	\$18,400	+ 12.7	28.3	\$10,022	+ 9.4	+ \$200
1974	16,331	+ 19.7	27.8	9,164	+ 18.9	- 30
1973	13,647	+ 23.3	26.7	7,710	+ 19.3	- 423
1972	11,065	+ 10.3	25.1	6,465	+ 9.3	- 768
1971	10,034	+ 12.6	25.3	5,914	+ 5.0	-1,014
1970	8,911	—	24.2	5,633	—	- 955

NOTE:

1. Disposable income represents personal income less taxes, other current transfers to governments, and total personal savings.
2. Household disposable income is derived by dividing total personal income by total households (Table 1).
3. 1975 disposable income is projected from the quarterly estimates of Statistics Canada.

SOURCE:

Statistics Canada, Canadian Statistical Review; The Financial Post Survey of Markets.

TOTAL RETAIL SALES AND ESTIMATED RETAIL SALES OF "HOME IMPROVEMENT" MERCHANDISE WESTERN CANADA

	TOTAL RETAIL SALES			ESTIMATED RETAIL SALES "HOME IMPROVEMENT" MERCHANDISE		
	(000,000)	Percentage Change	Percentage Canada	(000,000)	Percentage Change	Percentage Canada
1975	\$14,683.4	+ 12.5	29.1	\$828.0	+ 12.7	28.3
1974	13,055.4	+ 19.3	29.3	734.9	+ 19.7	27.8
1973	10,947.6	+ 14.3	28.6	614.1	+ 23.3	26.7
1972	9,574.0	+ 14.7	28.1	497.9	+ 10.3	25.1
1971	8,346.2	+ 10.3	27.5	451.5	+ 12.6	25.3
1970	7,568.6	—	27.2	401.0	—	24.2

NOTE:

1. Retail sales for 1970 and 1971 include Yukon and The Northwest Territories.
2. 1975 retail sales are preliminary estimates by Statistics Canada.
3. "Home improvement" merchandise includes lumber, building materials, hardware, tools, paint, wallpaper, carpet, electrical and plumbing supplies.
4. The retail sales of home improvement merchandise are estimated to represent 4.5% of total disposable income, based on information contained in publications of Statistics Canada. No allowance was made for the possibility that the percentage of household income spent on these products may be increasing. The estimated retail sales do not include sales to professional customers and builders.

SOURCE: Statistics Canada, Retail Trade; Western Realesearch Corporation.

6 ESTIMATED 1975 TOTAL SALES IN CANADA BUILDING PRODUCTS/HOME IMPROVEMENT MERCHANDISE

LUMBER AND BUILDING MATERIAL STORES	\$2,754,000,000
HARDWARE STORES	554,000,000
DEPARTMENT STORES	250,000,000
OTHER STORES	465,000,000
	\$4,023,000,000

NOTE:

1. Sales of lumber and building material stores include sales to professional customers, builders, industrial and institutional accounts.
2. Sales of hardware, department and other stores only include sales to retail customers.
3. Sales of hardware stores only include home improvement type merchandise and exclude sales of appliances, giftware, housewares and sporting goods.
4. Sales of department stores only include hardware, paint, wallpaper, building materials, plumbing and electrical supplies.
5. Sales of other stores include specialty retailers of plumbing, heating, electrical, paint, wallpaper and carpet products.

SOURCE: Statistics Canada; Revelstoke Companies Ltd.

Canada over the last five years. Last year Western Canada accounted for 33.3% of the value of all construction permits issued in Canada and 35.1% of the value of all residential permits. The value of total construction is an excellent indicator of the demand experienced by Revelstoke's Concrete Division and to a lesser extent the Retail Division.

DISPOSABLE INCOME: The total amount of disposable income available in any market is highly relevant to gauging the sales potential for a retailer. Disposable income represents personal income less taxes, other transfers to governments and personal savings. As Table 4 outlines, the total amount of disposable income has grown substantially in Western Canada even allowing for inflation with the four western provinces accounting for a steadily increasing proportion of Canada's total disposable income. Since 1970 the average disposable income per household in Western Canada has risen 77.9% with inflation playing a major role in this increase. In 1975 Western Canada's total disposable income was \$18.4 billion with the average per household being \$10,022. Last year was the first time that this amount exceeded the Canadian average.

RETAIL SALES AND SIZE OF MARKET: Table 5 indicates that total retail sales in Western Canada were \$14.7 billion in 1975 which represents an increase of 94.0% above 1970. In the last five years Western Canada has accounted for an increasing proportion of Canada's total retail sales.

All retailers are naturally interested in the total size of the market for their type of merchandise. In the case of Revelstoke, it is difficult to estimate with a high degree of accuracy the total Canadian retail sales of the type of products carried by the Company's stores. While Statistics Canada makes certain information and studies available, it is necessary to apply an element of subjective judgement in determining the total size of Revelstoke's retail market.

The estimated sales of "home improvement" merchandise in Table 5 are based on the premise that Canadians spend approximately 4.5% of their total personal income on this type of merchandise which includes lumber, building materials, hardware, tools, paint, wallpaper, carpet, electrical and plumbing supplies. Obviously single family homeowners spend a much higher proportion of their disposable income on home improvement merchandise than do apartment dwellers. In addition homeowners in certain parts of Canada, especially rural areas, may be more inclined to spend a higher proportion of their disposable income on this type of merchandise than homeowners in other parts of Canada. It is assumed in Table 5 that the percentage of disposable income spent on home improvement merchandise has been a constant figure since 1970. It is possible, however, that the proportion of total disposable income spent on these products may be increasing and that the actual figure may be as high as 5.5% in certain parts of Canada.

According to Table 5, the total estimated 1975 retail sales of home improvement merchandise in Western Canada amounted to \$828,000,000, excluding sales to professional customers such as builders, industrial and institutional accounts. While these figures are subject to certain assumptions, the total Canadian market for the type of merchandise sold by Revelstoke's stores nevertheless appears to be substantial at approximately \$2.9 billion.

Table 6 contains Revelstoke's estimate that the total 1975 sales of building products and home improvement merchandise by all categories of Canadian stores amounted to approximately \$4 billion. As this table illustrates, the industry is highly fragmented with many different types of retailers having a share of the market. Last year lumber and building materials stores accounted for more than two-thirds of the total volume in building products and home improvement merchandise, including sales to professional customers which probably represent about 40% of the total.

FIVE YEAR FINANCIAL REVIEW

	1975	1974	1973	1972	1971
Total Sales	<u>\$93,304,451</u>	<u>\$80,343,318</u>	<u>\$63,170,831</u>	<u>\$42,808,839</u>	<u>\$31,866,424</u>
Operating Earnings	<u>\$ 4,701,058</u>	<u>\$ 4,842,936</u>	<u>\$ 6,386,970</u>	<u>\$ 3,000,066</u>	<u>\$ 1,419,945</u>
Minority Interest	<u>40,236</u>	<u>23,277</u>	<u>17,081</u>	<u>14,119</u>	<u>3,548</u>
Income Taxes	<u>2,129,849</u>	<u>2,384,540</u>	<u>3,037,743</u>	<u>1,444,563</u>	<u>652,494</u>
Net Earnings	<u>\$ 2,530,973</u>	<u>\$ 2,435,119</u>	<u>\$ 3,332,146</u>	<u>\$ 1,541,384</u>	<u>\$ 763,903</u>
Cash Flow	<u>\$ 3,611,187</u>	<u>\$ 3,907,694</u>	<u>\$ 5,364,260</u>	<u>\$ 2,970,012</u>	<u>\$ 2,074,069</u>
Earnings					
Per Share	1.25	1.21	1.77	.79	.35
Cash Flow Per Share	1.87	2.04	2.96	1.65	1.15
Dividends Per					
Common Share	.20	.20	.17	.14	.07
Shareholders' Equity	<u>22,133,880</u>	<u>20,053,729</u>	<u>18,126,836</u>	<u>15,501,854</u>	<u>14,263,382</u>
Working Capital	<u>16,125,795</u>	<u>10,130,895</u>	<u>10,048,005</u>	<u>6,524,107</u>	<u>7,178,685</u>
Long Term Debt	<u>10,410,782</u>	<u>3,991,320</u>	<u>4,913,757</u>	<u>3,212,366</u>	<u>2,227,453</u>
Total Assets	<u>62,080,918</u>	<u>49,692,146</u>	<u>43,569,418</u>	<u>33,558,810</u>	<u>24,470,987</u>
Current Assets to					
Current Liabilities	1.57	1.41	1.49	1.44	1.90
Equity Capital to					
Long Term Debt	2.13	5.02	3.69	4.83	6.40
Common Shares					
Outstanding	1,930,261	1,918,515	1,910,015	1,800,015	1,800,015
Number of Common					
Shareholders	899	906	760	735	901
Price Range of					
Common Shares - High	\$9.13	\$13.13	\$12.88	\$ 7.88	\$ 5.50
- Low	\$5.75	\$ 5.00	\$ 7.63	\$ 4.50	\$ 3.00

Earnings per share are calculated after deducting preferred dividends and are based on the weighted average number of shares outstanding during the year.

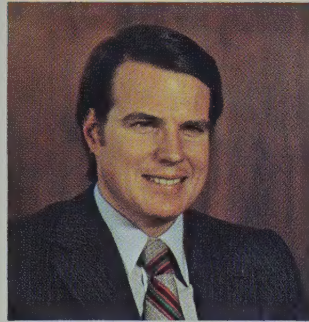
GENERAL COMPANY INFORMATION

OFFICERS



GERALD A. BERKHOLD

Vice President Operations. Joined Revelstoke in that position in 1972 after being with Triarch Corporation Limited and The Canadian Imperial Bank of Commerce. Received B. Comm. from the University of Alberta in 1960. Age 37.



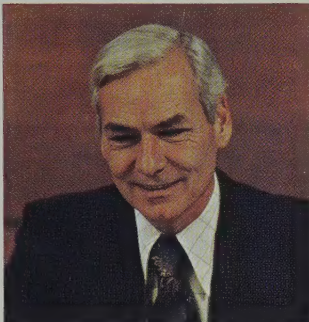
STEELE CURRY

President. Joined Revelstoke in that position in 1971 after being with Triarch Corporation Limited, The T. Eaton Company and Development Research Associates. Received M.B.A. from Harvard University in 1964, B.A. from Stanford University in 1962. Age 35.



JOHN B. HALL

Vice President Lumber Trading. Responsible for selling lumber produced by the Lumber Division and purchasing lumber required by the Retail Division. Joined Revelstoke in 1938, appointed Vice President in 1960. Age 60.



KEITH A. C. McDOWELL

Vice President and Secretary Treasurer. Joined Revelstoke in 1955, appointed Secretary Treasurer in 1961 and Vice President in 1968. C.A. Age 48.



GORDON D. ROBERTS

Vice President Administration. Responsible for accounting, data processing, general administration and management information systems. Joined Revelstoke in 1975 after being with IBM Canada Limited. Received B. Comm. from the University of Alberta in 1960. Age 38.



VICTOR R. ROSKEY

Vice President Merchandising. Responsible for advertising, new store development, purchasing and other merchandising functions in the Retail Division. Joined Revelstoke in 1948, appointed Vice President in 1974. Age 44.

BOARD OF DIRECTORS

Gerald A. Berkhold
Vice President of the Company
Calgary, Alberta

Arthur J. E. Child
President
Burns Foods Limited
Calgary, Alberta

Steele Curry
President of the Company
Calgary, Alberta

Neil B. Ivory
President
Pembroke Management Ltd.
Montreal, Quebec

Gordon L. Leonard
General Manager
Citicorp Venture Capital Canada Ltd.
Oakville, Ontario

John E. Sands, C.A.
Vice President
Trucena Investments Limited
Toronto, Ontario

John L. Schlosser
President
Tri-Jay Investments Ltd.
Edmonton, Alberta

Brett F. Sine
Chairman of the Board of the Company
Calgary, Alberta

Arthur J. Vincent
President
Smith, Vincent & Co. Ltd.
Winnipeg, Manitoba

HEAD OFFICE

Revelstoke Companies Ltd.
Box 2501
508 - 24 Avenue S.W.
Calgary, Alberta T2P 2N2
Phone (403) 266-6071

AUDITORS

Price Waterhouse & Co.

PRINCIPAL SUBSIDIARY COMPANIES AND % OF OWNERSHIP

Eccott Building Supplies Ltd.	73%
Revelstoke Home Centres Ltd.	100%
Revelstoke-Lafarge Ltd.	85%
Revelstoke Sawmill (Radium) Ltd.	100%
Stewart & Hudson Ltd.	100%

PARENT COMPANY INCORPORATION

Province of Alberta, Canada

TRANSFER AGENTS AND REGISTRARS

Common Shares

Montreal Trust Company
Calgary, Toronto, Montreal and Vancouver

Preferred Shares and Trustees for Debentures

Canada Permanent Trust Company
Calgary, Toronto, Montreal and Vancouver

LISTING OF COMMON AND PREFERRED SHARES

The Toronto Stock Exchange

ECCOTT BUILDING SUPPLIES LTD.

James E. Eccott
President

REVELSTOKE SAWMILL (RADIUM) LTD.

Frank R. Fortin
General Manager

STEWART & HUDSON LTD.

Geoffrey J. Stewart
Chairman
James W. Anderson
General Manager

ANNUAL MEETING

The Annual Meeting of Shareholders will be held at the Palliser Hotel, 133 - 9 Avenue S.W., Calgary, Alberta on May 27, 1976 at 9:30 a.m.

